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Governor's Economic Development Conference: A vision of opportunity

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John McKernan is completing his second consecutive term as Maine governor. First elected in 1986, Governor McKernan has presided over a Maine economy in transition. In remarks to the 21st annual Governor's Economic Development Conference at the University of Maine this fall, Governor McKernan cited his administration's efforts to hasten the pace of economic growth in Maine. In the following article, based on his Conference remarks, McKernan highlights his administration's efforts to expand Maine's economy, including its initiatives to reduce the cost of doing business in the state, to reform education, and to build consensus among various constituencies around goals and strategies for economic development.

Expanding the Maine economy

Governor John McKernan

In my first address to the Governor's Economic Conference seven years ago, I talked about my vision for Maine. I envisioned Maine as a state of opportunity for all of the people — one that offered choice and independence, one that fostered dreams and aspirations, and one that provided its people with an environment and a quality of life unsurpassed in this nation. Simply put, my goal was to bring more opportunity for more people in more parts of our state. That is still my vision today. I believe that, in spite of the worst recession that this state and region has seen since the Great Depression, and through the various efforts that we have undertaken over the past eight years, we are closer to that vision in 1994 than we were in 1987. For example, Maine has created over 13,000 new jobs since 1992. Maine and New Hampshire are the only two states in New England that have increased their manufacturing jobs in the 1990s.

Over the past eight years we have taken a number of steps to make that vision a reality. We began in 1987 with a creation of a new Department of Economic and Community Development (DECD) to link economic and community development in a cabinet-level agency. After we formed the new department, we also created an Economic Development Strategy Task Force to develop a blueprint for this state, to examine the state's economy, to analyze emerging trends, and to identify opportunities for growth. Since then, we have continued to update those types of activities, first with the Jobs Commission of the early 1990s and second, with an initiative that I think will prove most important for this decade, the Maine Economic Growth Council, which is co-chaired by DECD Commissioner Mike Aube and State Senator Chellie Pingree. This latter initiative is important because of the need for consensus, to bring people together and to make sure that we have a common goal for the state.

A major conclusion of that original Economic Development Strategy Task Force was that a better educated and better trained work force in this state is necessary for tomorrow's jobs and to accomplish the shift from traditional to emerging industries. I subscribe totally to that conclusion. That is why I have put such an emphasis on education during my two terms as

governor. I have emphasized not just the education that we have always known, but also educational reform to assure that our educational system does meet the needs not only of the 1990s, but also of the 21st century, where most of the kids in our educational system will spend their working lives. We instituted report cards on how schools are doing so parents and communities can compare their schools to the results that are being achieved in other schools. We have increased student aid to ensure that more youngsters are able to go to post-secondary education than ever before. We have increased this aid, in spite of the difficult budget problems, because we believe that it is so important that youngsters have the financial resources to follow their aspirations and their dreams. We have just instituted, working with this University, reading recovery programs. This initiative is one of the most important that we have undertaken in the last eight years, because it will result in every first grader in this state being able to read at first grade level by the time he or she leaves the first grade. That may not sound like much, but consider what happens to the 20 percent of the youngsters who do not know how to read as well as their peers by the time they leave the first grade: they just get further behind in second grade, further behind in third grade, and by the end of that third grade we have probably lost them for good. That just cannot continue to happen. America has changed, the workplace has changed, and our educational system has to change if America's standard of living will continue to increase. That is why we have begun our youth apprenticeship program.

We need to reform our educational system, and especially in the short term, to address the needs of the half of the students that our school system neglects — students who could do better without much extra help just by refocusing their educational activities. I have recently written a book, *Making the Grade*, which I wrote as much as a wake up call for businesses in this country and in this state as I did for the general public. I have found that most educators and most parents know that our schools are not meeting the needs of all of our kids. Our schools have never had to meet the educational needs of most of our kids, because the kind of jobs available in this country did not require a lot of formal education. Two-thirds of the class could get by in our economy without much formal education just by having common sense, good judgment, and being able to work hard. Many people in Maine fell — and still fall — into that category. But the world of work has changed. There are no longer jobs for youngsters that do not have an adequate education.

A prescription for disaster

Several articles have been written recently on how the Maine economy has changed. Repeated in those was one statistic that everyone ought to keep in mind: 55 percent of the kids are chasing 25 percent of the jobs. That is because 75 percent of the jobs in this state require more than a high school education. So only 25 percent of the jobs are suitable for someone who did not graduate from high school or who has only graduated from high school. Yet 55 percent of our students do not go past high school. That trend is a prescription for disaster. The gap will continue to widen until we face the same problems all across this country that we currently see in our inner cities, where there is no hope and no economic opportunities for too many of our citizens. That has to change and I believe that businesses must be part of the solution. That means getting involved more than just around the edges and more than just contributing a few dollars. Rather, it means getting into a working relationship with our schools so that they understand what business people need in terms of skills in the workforce. Business's options are: to do the job it can afford to do

here in America with the workers who come out of our educational system and then do the other jobs in foreign locations with foreign workers; or to work with the schools to ensure that fewer and fewer of the students coming out of our schools cannot be employed by business. We want businesses to be competitive by hiring Maine or American workers. That can be done as long as we upgrade the skills of the workforce.

If we do not get that commitment from the business community, educators, and government policy people, I fear that businesses will make a decision to be competitive and to expand their business by doing those jobs that they cannot do in America somewhere else. In the short term and for individual businesses this policy may be okay. But a de facto national policy of sending jobs somewhere else will result in not enough jobs for American workers, will have a stagnating effect on our economy, and will reduce our standard of living. Ultimately, we will have more social crises than this country and its people will be able to endure.

The national economy has changed, the Maine economy has changed, and therefore state policies have to change. In the midst of such change, building consensus is so important. We hope that the Economic Growth Council will be the vehicle for building that consensus and that discussions in other fora will move us a long way toward reaching that consensus when the next governor and the next legislature begin their work. Over the last eight years, our administration has done its part. Development and investment in telecommunications networks have been accelerated. We have made tax and regulatory reforms that are critical to encouraging capital investments in new information technology, which I believe will be at the foundation of our future economic growth. The Commission on Excellence in Education has been established to advance our curriculum to meet the needs of the marketplace. Their work will be so important to having the right kind of educational reform. The technical college system has expanded its offerings for training programs that are customized to respond to the needs of businesses. We have expanded the governor's contingency account for training for both new workers as well as upgrading the skills of existing workers. That will provide more opportunities to train and retrain workers.

We have enhanced the resources for marketing this state and the benefits of Maine. This has allowed us to also strengthen our tourism activities. The University of Maine System has become more of a partner in our economic development activities. The Centers of Innovation and Technology have been established to utilize the talents of people in this system and other institutions of higher education to support research and technology. We have implemented several business and entrepreneurial assistance programs, such as the Business Answers Program, the One-Stop Permitting Center, and the Business Ombudsman, which was created to ease the regulatory process for businesses looking to expand and to create jobs. The "Made in Maine" marketing initiative was established to support and expand the marketing reach of Maine craftsmen. We have expanded the Finance Authority of Maine (FAME) program so that we can now provide even more flexible sources of capital to businesses in this state. We have made a major step forward in finally getting the Workers' Compensation insurance system albatross off our necks, so that system is now more in line than those in other states.

The low point

The 1991 shutdown of state government was the low point of our administration and also the turning point. Without being willing to draw that line in the sand and focus people's attention on the fact that Maine's costs of doing business are too high, I do not believe that we would have either changed the Workers' Compensation insurance system or changed the mindset of the legislature to understand the importance of reducing the costs of doing business in Maine. We needed both changes if we were to be successful in creating new jobs for workers in this state.

One thing that we learned from the 1980s and the early 1990s was that, contrary to what some of us had hoped, Maine's economy did not expand so forcefully in the 1980s because everyone else in America had awakened to what a wonderful place Maine was. Rather, there had been no available workers and no available space in either Massachusetts or New Hampshire. For any company that wanted to be in the Northeast, even though the basic costs of doing business in Maine were higher than states in other regions, it was cheaper in Maine than to pay the exorbitant costs either for space or for workers in New Hampshire or Massachusetts. So those businesses came to Maine.

Of course, there are plenty of available workers and space in both Massachusetts and New Hampshire now. The issue at the heart of the fight in 1991 was how to make Maine a place to which businesses wanted to come in the absence of the rapidly expanding economy of the mid-1980s. Because we have workers with a good work ethic, abundant natural resources, and a high quality of life, we knew the answer was to get the costs of doing business in Maine in line with the other states. Reducing the cost of doing business in Maine would give businesses every reason to be in Maine. Obviously, the quality of the work force and the quality of life can only offset so many extra costs. What happened symbolically with the government shutdown in 1991 was that people finally focused on the impact those extra costs had on our ability to make sure that Maine people had adequate economic opportunities. Because of the sentiment shifting in 1991, I believe that people will look back on the last two years as a time when Maine government, both the executive and legislative branches, really began to make the kind of changes that have made Maine a much better place to do business. Those changes have included changes in incentives, in investment tax credits, in state tax increment financing, in telecommunications regulation, in allowing economic development electric rates, and in shortening the permitting time for our environmental processes by over 65 percent in the last eight years. We are finally getting Maine to where, when businesses look at a number of states, Maine is now viewed as a state that they can do business in.

I can assure you that these changes have made a difference in Orono with the expansion of MBNA from its original location in Camden. These changes have also made possible the expansion of General Electric in Bangor, Airco in Kittery, Keyes Fibre in Waterville, National Semiconductor in South Portland, and Nautica in Rockland. Those changes made a difference in the decisions by all of those companies either to stay in Maine, to expand in Maine, or to come to Maine. Policies that impact the cost of doing business here make a huge difference in our economic well-being.

But I am convinced that more still needs to be done. The last session of the legislature approved the Maine Quality Centers. In September, we finalized our books for the 1994 fiscal year ending June 30th. We have, as of October 3rd, allocated \$2.6 million dollars to those Quality Centers so that we can now guarantee to businesses who want to create more than 20 jobs in this state that we will train their workers free of charge. All they have to do is come to Maine. That could be a major sales pitch that will make a huge difference in our ability to compete with other states that are trying to get either Maine businesses to leave or other businesses to come to their states.

Finding new markets

We should continue through our total quality management (TQM) activities in Augusta to be more user friendly and to be more customer-oriented, so that we can get people through the regulatory process sooner than has been the case in the past. We must continue to look at our tax burden. We must assess how it is allocated and that the tax burden will be conducive to creating more jobs in the state. We also must focus more on international activities. In trying to help create jobs in Maine, I wish I had had more time to help businesses with their international marketing. We live in an interdependent global economy and we can no longer afford just to sell to each other or just to sell to people in our region. I think that our South American trade mission last spring is a good example of the kind of efforts we can make. We now have negotiations to provide modular housing for people in two different South American countries. Those kinds of opportunities do exist out there. There were millions of dollars in contracts for the companies who came with us on this trip. The next governor has to understand that the government in the state can be a catalyst and resource for enhancing export markets for Maine businesses. Many of these businesses are small- or medium-size that do not understand how to do business in the international marketplace. That is the one way that the state can be a resource to allow businesses the opportunities to learn about the different markets and to expand their sales base. But it cannot be done without government being involved in or helping to organize trips to many of these countries. It makes a big difference if somebody high up in a government is with business people who are looking for economic opportunities. Rather than criticize the next governor for going on junkets, I hope the business community will understand that one of the most important activities that the next governor can undertake is to lead that effort between government and business to find new markets and new investments for businesses in our state. As we become more immersed in international commerce, I am also convinced that Maine's economy will continue to grow at even greater rates than it is today. Unlike eight or nine years ago, Maine is now prepared to attract investment in this modern economy.

We have made fundamental changes in our business climate and we have developed incentives that I believe allow us to be competitive with other states. One example of early success with these changes is MBNA. We have been working for months on the expansion plans of MBNA in Camden. By the end of 1995, MBNA will provide over 2,000 jobs in this state in probably four or five different communities. There were two fundamental factors that contributed to that expansion decision. One is the incredible productivity of our workforce, which truly is second to none. The other is the advanced telecommunication system in Maine, which ought to be the foundation of our economic activity. Maine's success in becoming the MBNA Northeast Regional Center is the direct result of the early investments and the continuing efforts of people in this state to be responsive to the legitimate needs of businesses wishing to locate in our state.

Today, in 1994, I am happy to say that unlike ten years ago, the welcome mat is truly out for businesses in this state. That welcome mat says, "Come to Maine, expand in Maine, grow your company in Maine."

Steve Forbes (of Forbes Magazine) has been hounding us to advertise in his magazine. I had told him for years that even though I was sure that it would be a very compelling advertisement, as soon as anybody called to follow up on it and found out what the costs of business were here in Maine, it would turn out to have been an absolute waste of money, because nobody would come. That has all changed. We have now, thanks to the legislature's generosity in giving us the funds to start to advertise what an attractive place Maine is to do business, the opportunity not just to let people know what our story is, but to make a compelling case when they call in response to those advertisements. That is a tribute to people coming together and working for the good of this state.

Conclusion

This state's best days are still ahead of it. On our journey to those better days, we have to be careful not to go back to the policies of the past. Times have changed and those policies will no longer work. Our commitment must be to making the right kinds of decisions upon this journey, decisions based on establishing priorities, on fiscal prudence, and on a knowledge that the private sector is truly the engine of the economy. This approach will result in economic prosperity for all to share.

Clearly, we have come a long way on this journey. We have come from a Maine just entering the regional economy to a state on the verge of global economic interdependence. We have come from Maine fishing and forestry and farming to Maine's value-added agricultural products, wood products, precision components, biotechnology, aquaculture, and telecommunications. And, yes, we have come from two Maines to a Maine that is positioned at the center of the Atlantic Rim as we grow in this international economy. All we need to do now is to join together, to reach a consensus so that we can move forward as one. It is that consensus that has brought us to where we have come these last two years. The continuing development of that consensus is crucial to our state's future.

John R. McKernan has been Governor of Maine since 1986. Previously, he served two terms in the U.S. Congress representing the First District of Maine and served in the Maine Legislature.

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